

August 11, 2022



Research Center

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Sawit Sumbermas Sarana (SSMS)

Favorable debt refinancing

Recent bond rating downgrade was NOT due to cash-flow risk

On 28Jun22, SSMS secured an 8-yr syndicated bank loan of IDR3.6tn with a 9% p.a. interest rate. Subsequently, SSMS announced a tender offer to buyback its USD300mn notes maturing in 23Jan2023 at USD900 for each USD1,000 in principal amount of notes; and able to redeem ~86.58% (or equivalent to USD259.7mn) from bondholders as of 7Jul2022. Following the conclusion of the notes' tender offer, both Moody's and S&P downgraded SSMS debt ratings to Caa2 (one notch below) and "Selective Default" (from CC), respectively. The downgrades were NOT due to potentially insufficient cash flows to settle the remaining USD40.3mn but due to description technicality. Quoting Moody's comment "*the buyback of the notes at a discount to par value and the diminished creditor rights of the residual noteholders (as noteholders will have to contend with secured bank debt, which has priority claim and ranks ahead of the notes) highlight the company's very high credit exposure*". In addition, Moody's "*expects SSMS to generate sufficient internal cash to redeem the residual USD40.3mn notes when they mature in Jan2023*".

Refinancing reduced SSMS debt risk profile

Considering the refinancing into bank loans, SSMS managed to 1) reduce its forex risk and 2) get away from the costly USD bond withholding tax structure. With their attractive plantation profile and overall higher CPO price to sustain in FY22F and FY23F as explained in our initiation report ([SSMS Initiation – Stepping into its prime](#)), we expect SSMS to generate hefty earnings of IDR2.7tn and IDR2.3tn respectively. The strong cash flow generation and moderate capex spending for routine maintenance should allow SSMS to generate sufficient cash for deleveraging, and redeem the residual USD40.3mn bonds (including the last coupon payment) when it matures in Jan2023. Historically, SSMS's global bond has been munching on their earnings, especially on 2018 and 2019. The refinanced debt also saves SSMS IDR35bn interest expenses in FY23.

Maintain BUY recommendation offering ~37% upside

We maintain our BUY call with TP at IDR2,040/sh, implying 7.2x FY22F PE and USD21.7k/Ha or at a premium as compared to other established Indonesian CPO companies). We have yet to analyze the earnings impact from revised export duty. Our sensitivity analysis shows that every IDR1,000/kg change in CPO ASP should impact SSMS's earnings by 15%, and every 5% change in CPO production should impact SSMS's earnings by 9%. Currently SSMS is trading at 5.2x FY22F PE, 1.7x FY22F EV/EBITDA, and a massive 38% ROE.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	4,011	5,203	7,293	6,149	6,250
GP (IDR bn)	1,797	2,205	4,102	3,361	3,504
OP (IDR bn)	1,109	1,552	3,326	2,611	2,755
NP (IDR bn)	577	1,516	2,685	2,247	2,517
EBITDA (IDR bn)	1,429	1,858	3,633	2,920	3,062
Net debt/(cash) (IDR bn)	4,411	4,374	1,765	(83)	(1,616)
OP margin (%)	27.7	29.8	45.6	42.5	44.1
ROE (%)	13.0	27.7	37.6	25.5	25.0
Dividend yield (%)	-	3.1	4.1	7.2	6.0
EPS (IDR)	60.5	159.1	281.9	235.9	264.3
chg. (% YoY)	NA	155.6	111.7	(18.4)	5.3
BPS (IDR)	511.4	641.2	885.5	1,052.7	1,260.0
DPS (IDR)	-	30.5	39.8	70.5	59.0
PE (x)	14.0	6.1	5.2	6.3	5.6
PB (x)	8.8	7.4	4.6	5.1	4.2
EV/EBITDA (x)	1.7	1.5	1.7	1.4	1.2

Company Update

Plantation

Aug 11, 2022

12M rating **BUY (Maintain)**
12M TP **IDR 2,040**
Upside **37%**

Stock Data

JCI (Aug 10)	7086.2
Stock price (Aug 10, IDR)	1490
Market cap (IDR bn)	14,192.3
Shares outstanding (mn)	9525
52-week high/low (IDR)	1,555/790
6M avg. daily turnover (IDR bn)	11.4
Free float (%)	32.40

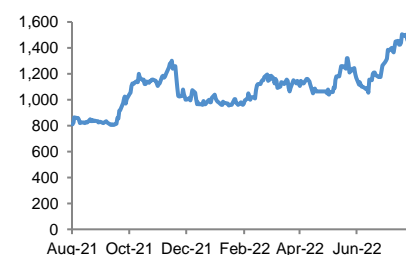
Major shareholders (%)

PT Citra Borneo Indah	53.8
PT Putra Borneo Agro Lestari	11.3

Performance

	1M	6M	12M
Absolute (%)	17.8	65.5	91.4
Relative to JCI (%p)	12.0	47.9	58.0

SSMS stock price



Source: Bloomberg

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Market Commentary

Market Commentary

- JCI closed marginally lower on Wednesday as the index managed to recover most of the intraday losses, thanks to late rebound in BMRI IJ and ASII IJ. The sentiments from global equities were bleak with investors remained cautious ahead of the release of crucial US inflation data later in the day.
- The index snapped its seven-day winning streak due to profit booking in some blue-chip stocks, LQ45 were flat. Commodity were mixed with coal miners exhibited strengths while metal miners tanked.
- Retail favourite BUMI IJ fell 5% following 24% gain on Tuesday trading, other coal miners rose as Fitch substantially lifts Asian coal price outlook due to Russian disruption. PTBA IJ +2.45%, ADRO IJ +0.31%.
- MEDC IJ +5.98% gained after Co. plans to pay interim dividend of \$25mn in 3Q.
- Top Gainers: BMRI (+1.47%), ASII (+1.48%), EMTK (+3.32%)
- Top Losers: BBRI (-2.27%), TLKM (-1.72%), BUMI (-5.00%)

News

Macroeconomic, Sector and Corporate News

- Fintech – OJK plans to put a ceiling on fintech loan daily interest. (Kontan)
- ITMG – recorded 1H22 net profit of USD461mn, ~3x YoY, 45% of our/cons FY22 ests
- MEDC – to distribute IDR14.8/sh interim dividend (~2.4% yield). Cum: 18Aug2022. (Bisnis)
- EXCL – secured shareholders' approval for rights issue of up to 2.75bn shares (~25% of capital). (Bisnis)
- LEAD – secured 7M22 new contracts of USD21mn, 78% of its FY22 target. (Kontan)
- PWON – recorded 1H22 net profit of IDR753.5bn, +62% YoY. 46% of cons FY22 est. (Investor daily)
- EMTK – recorded 1H22 net profit of IDR2.7tn (vs. 1H21 net profit of IDR265bn). (Investor daily)
- SCMA – recorded 1H22 net profit of IDR616bn, down 15% YoY (Investor daily)
- SAME – recorded 1H22 net loss of IDR24.8bn (vs. 1H21 net profit of IDR87.9bn). (Investor daily)
- RSGK – recorded 1H22 net profit of IDR8.6bn, down 85% YoY. (Investor daily)

Outliers

Outlier Stocks

- Sharp Movers (Up) : CRAB (+34.7%), MEDS (+34.4%), PNIN (+15%)
- Sharp Movers (Down) : OLIV (-9.2%), UFOE (-6.7%), ARKO (-6.7%)

Macro Calendar

August 11, 2022

Mon	Tue	Wed	Thu	Fri
1	2	3	4	5
Korea> July exports US> July ISM manufacturing PMI China> July Caixin manufacturing PMI	Korea> July CPI	US> MBA mortgage applications July ISM services PMI June durable goods orders (F) China> July Caixin services PMI	US> June trade balance New jobless claims	US> July change in non-farm payrolls July jobless rate
8	9	10	11	12
China> July imports and exports (Aug 7) July trade balance (Aug 7) July FX reserves (Aug 7)	OECD leading economic index	Korea> July unemployment rate US> MBA mortgage applications July CPI China> July PPI July CPI	MSCI quarterly review The OPEC Monthly Oil Market Report Japan> Market closed (Mountain Day)	US> August Michigan Consumer Confidence (P)
15	16	17	18	19
Korea> Market closed (National Liberation Day) US> August manufacturing index (New York) China> June mining and manufacturing production July fixed asset investment Japan> June mining and manufacturing production (F) 2Q GDP (P)	US> July housing starts July mining and manufacturing production July capacity utilization	US> July retail sales Europe> 2Q GDP (P) Japan> July core machinery orders	US> FOMC minutes New jobless claims July existing home sales Europe> July CPI	Japan> July CPI
22	23	24	25	26
	US> July new home sales	US> July durable goods orders (P) MBA mortgage applications	Korea> The BoK monetary policy meeting US> Jackson Hole symposium (Aug 25-27) 2Q GDP New jobless claims	US> August Michigan Consumer Confidence (F) July personal consumption expenditures (PCE) price index
29	30	31		
US> August Dallas Fed manufacturing survey	US> August CB consumer confidence index	Korea> July mining and manufacturing production US> MBA mortgage applications Europe> August CPI (P) China> August manufacturing PMI Japan> July mining and manufacturing production (P)		

Note: 1) Figures in parentheses represent the latest reported figures, Bloomberg estimates and previous reported figures in that order. For example: Data (actual reported figures, Bloomberg estimate, previous reported figures). Bloomberg estimates are subject to change 2) Earnings release date is from Bloomberg or company announcement